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UNCLAS PRISTINA 001058

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STATE FOR EUR/SCE, EB/ESC/TFS AND INL  
PLEASE PASS TO TREASURY FOR FINCEN  
PLEASE ALSO PASS TO JUSTICE FOR AFMLS, OIA, AND OPDAT

E.O. 12958: N/A

TAGS: [KCRM](#) [KTFN](#) [EFIN](#) [ECON](#) [YI](#)  
SUBJECT: KOSOVO: KOSOVO INTERNATIONAL NARCOTICS CONTROL  
STRATEGY REPORT PART II

REF: STATE 157000

¶1. Kosovo is a disputed territory that has been governed by the United Nations (UN) since 1999. Current laws and regulations pertaining to financial crimes derive their authority from the Special Representative of the UN Secretary General. If, as expected, there is a resolution of Kosovo's final status in 2007, a critical challenge will be ensuring the continuity and enhancement of existing legal instruments.

¶2. Kosovo's major problems include a struggling economy with high unemployment, corruption, crime, weak adherence to and respect for the rule of law, and the need for greater protection of minority rights. After more than seven years of UN administration, Kosovo institutions have assumed greater responsibility for major governmental functions, although the United Nations Mission in Kosovo (UNMIK) maintains executive authority in critical areas.

¶3. Kosovo is not an important regional financial center and most money laundering offenses are related to tax evasion, customs fraud and smuggling. It is estimated that money-laundering related to narcotics-trafficking, weapons smuggling, and trafficking in persons is about 20 percent. Kosovo has an underground market for smuggled goods, counterfeit currency and pirated products. Illegal proceeds are generated from official corruption, tax evasion, customs fraud, organized crime, contraband and other types of financial crimes. Illegal proceeds are laundered into Kosovo from domestic and foreign criminal activity. While more evidence is needed, UNMIK officials believe that proceeds from illegal activities are being laundered in all forms of real estate, retail and commercial stores, banks, financial services, casinos and trading companies.

¶4. According to Kosovo's Financial Intelligence Center (FIC), money laundering likely occurs in non-bank financial systems such as hawalas, exchange houses, and street currency vendors. Kosovo has experienced bank fraud and counterfeit currency. In March 2006, Credit Bank of Pristina (CBP), one of six local banks in Kosovo, had its operating license revoked by the Banking and Payments Authority of Kosovo (now Central Banking Authority of Kosovo) as a result of bad loans totaling 14 million euros given primarily to some of the bank's board members and shareholders. Many customers, including some American citizens, suffered losses as a result of CBP's financial malfeasance. The Banking and Payments Authority hired the U.S. Federal Deposit Insurance Corporation (FDIC) officials to conduct the bankruptcy and liquidation of CBP in hopes of returning 95 percent of the

deposits to the bank's former customers. The Central Banking Authority is closely monitoring the activities all banks to avoid fraud and financial malfeasance. FIC officials said that counterfeit currency ( U.S. dollars, euros, Swiss francs ) is becoming a problem in Kosovo. Most of the counterfeit currency is not produced in Kosovo, but laundered into the banking and financial systems.

15. There is currently no evidence that Kosovo's financial institutions engage in currency transactions involving international narcotics proceeds or money laundering that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. The FIC reported that it has not discovered laundered money heading to the United States. Most of the cash flow entering Kosovo derives from the Balkans, Switzerland, United Kingdom, Turkey and the United States. The FIC estimates that there is 3-4 billion euros of cash in Kosovo every year.

16. Kosovo does not have nor license offshore financial centers, offshore banks and offshore international business companies. There is no legislation in Kosovo that permits offshore shell companies, trusts and other forms of offshore international business. There are no free trade zones in Kosovo.

17. UNMIK Regulation No. 2004/2 (On the Deterrence of Money Laundering and Related Criminal Offenses) is the regulation that criminalizes money laundering and terrorist financing. The law criminalizes all serious crimes related to money laundering that carry a minimum threshold for fines and penalties up to 100,000 euros and jail time for two to five years. There is no law that applies only to drug-related money laundering. Money laundering is a felony offense.

18. Kosovo has UNMIK secrecy regulations for banks but UNMIK Regulation No. 2004/2 supersedes these statutes. UNMIK Regulation No. 2004/2 also includes a provision that prohibits professional secrecy to be invoked as a ground for refusal to provide information pertaining to money laundering. UNMIK Regulation No. 2004/2 establishes the creation and authority of the FIC. The Central Banking Authority of Kosovo (CBAK) and the FIC supervise banks and financial institutions to ensure compliance with the anti-money laundering (AML) law. Banks and financial institutions are required to report any single transaction over 10,000 euros. UNMIK Regulation No. 2004/2 requires banks and financial institutions to maintain records for money laundering or terrorist financing cases for at least five years after the account has been closed or relations with the client have ended, whichever is later.

19. Most money laundering regulations are applied to all non-bank financial institutions (NBFIs) except casinos. Casinos are not expressly mentioned in UNMIK Regulation No. 2004/2, but they fall under the jurisdiction of the UNMIK Regulation for Business Organization. The FIC has submitted amendments to require casinos to report their activities to the CBAK. The FIC supervises most NBFIs for compliance. UNMIK Regulation No. 2004/2 requires all banks, financial institutions, non-governmental organizations (NGOs), attorneys and accountants to file suspicious activity reports (SARs) within 24 hours of the time the act was identified. Businesses are not required to file SARs. There is no threshold amount to file a SAR. UNMIK Regulation No. 2004/2 requires all reporting individuals to cooperate with the FIC.

There are no statutory requirements limiting the international transportation of currency and money instruments coming in and out of Kosovo. However, every person entering or leaving Kosovo and carrying monetary instruments in excess of 10,000 euros shall declare the amount and source of the money with UNMIK Customs Service with a copy of that report to the FIC. Every person sending from or receiving in Kosovo in excess of 10,000 euros via post or commercial courier shall declare the amount and source of the money with UNMIK Customs Service with a copy of that report to the FIC.

¶10. The FIC is an independent organization which reports to the UNMIK Principal Deputy of the Special Representative of the Secretary General. The FIC needs more qualified, experienced staff. The FIC is an administrative body that demands information from banks, financial institutions and NBFIs. The FIC can conduct compliance inspections but it is not a criminal investigatory agency. The FIC does have regulatory responsibilities. The FIC has access to records and databases of the PISG, financial institutions and NBFIs.

¶11. The FIC shares information and works closely with the Central Banking Authority of Kosovo (CBAK), Kosovo Tax Administration, Kosovo Office of the Auditor General, UNMIK Customs, UNMIK Central Intelligence Unit, the Financial Investigation Unit (The Italian Government's Guardia di Finanza is seconded to UNMIK to carry out the investigation of financial crimes, including money laundering and terrorist financing), UNMIK Civilian Police, Kosovo Ombudsmen and publicly-owned enterprises such as the Kosovo Energy Corporation. The FIC has formal agreements in place with Albania, Montenegro and Macedonia to share information with their financial intelligence units.

¶12. As of November 2006, 30 SARs were filed and banks, financial institutions and NBFIs file approximately 8,000 currency transaction reports each month. There has been one arrest related to money laundering involving the telecommunications monopoly Post and Telecom of Kosovo, but the case did not result in a successful prosecution.

¶13. Kosovo's Financial Investigation Unit (FIU) is comprised of the Italian Government's Guardia di Finanza which is seconded to UNMIK to carry out the investigation of financial crimes, including money laundering and terrorist financing. The FIU is adequately staffed and trained.

¶14. In 2006, the FIC conducted a public outreach campaign and sting operation called Operation Z Market to compel illegal money exchangers, hawalas and remitters to license their activities. Twenty people applied for a license after the FIC conducted its sting operation to compel them to legitimize their company or face the possibility of fines, penalties and jail time.

¶15. Kosovo has not criminalized the financing of terrorism as required by the United Nations Security Council Resolution ¶1373. Terrorism and terrorist financing are considered serious crimes under UNMIK Regulation No. 2004/2 and UNMIK's Provisional Criminal Code (Articles 109-112) and UNMIK Regulation No. 2001/12 on the Prohibition of Terrorism and Related Offenses. UNMIK's Office of Internal Security is responsible for disseminating UN 1267 sanctions lists to the appropriate intelligence, law enforcement agencies, financial institutions and the FIC. UNMIK has the jurisdiction to freeze, seize or forfeit assets. In 2005-06, UNMIK did not freeze, seize or forfeit assets related to UN 1267 sanctions lists.

¶16. UNMIK Regulation No. 2004/2 does not permit non-governmental organizations (NGOs) to accept any currency in excess of 1,000 euros from a single source in a single day. NGOs can not disburse money in excess of 5,000 euros in a single day to a single recipient. NGOs can seek a one-time or recurring exemption from the FIC to allow acceptance of donations in excess of 1,000 euros from a single donor or to disburse currency in excess of 5,000 euros to a single recipient. The FIC has 30 days to respond to the request and may grant or deny the exemption. The FIC's decision is final and not subject to appeal. NGOs are required to maintain accounts that document all income and disbursements, identify the sources and amounts of income and method of payment. NGOs must also identify disbursements by recipients, intended use of funds and method of payment. NGOs are required to file SARs and an annual report with detailed accounting and records of all donations and disbursements in excess of 5,000 euros. UNMIK may suspend or revoke the registration of an NGO for violation of any

provision in UNMIK Regulation No. 2004/2 and UNMIK Regulation No. 1999/22 on the Registration and Operation of Non-Governmental Organizations in Kosovo.

¶17. UNMIK does have statutes to regulate and monitor cash coming into and out of Kosovo. UNMIK Customs officials note that there is a lack of effective control of the administrative boundary between Kosovo and neighboring countries and suspect that significant amounts of cash flow in and out of Kosovo. There are inbound and outbound reporting requirements. There are no statutory requirements limiting the international transportation of currency and money instruments coming in and out of Kosovo. But every person entering or leaving Kosovo and carrying monetary instruments in excess of 10,000 euros shall declare the amount and source of the money with UNMIK Customs Service with a copy of that report to the FIC. Any cash smuggling report is shared between UNMIK Customs Service, the FIC, FIU, intelligence organizations and law enforcement.

¶18. UNMIK Regulation No. 2004/2 has provisions for asset and forfeiture, using both civil and criminal proceedings. For suspicious transactions or activities related to money laundering and terrorist financing, the FIC can freeze a transaction for 48 hours and the public prosecutor's office can decide to seize or continue freezing the asset. Legitimate businesses can be seized if used to launder money or support terrorist activity. The banking community cooperates with enforcement efforts to trace funds and seize/freeze bank accounts. There is no law drug-related asset seizure and forfeiture law. In 2006 there were no terrorist-related assets frozen, seized or forfeited. Kosovo's undefined political status impedes its ability to enter into agreements with other countries to share seized narcotics assets or assets from serious crimes. Kosovo does participate in regional initiatives to improve its capacity on asset tracing, freezing and seizure.

¶19. UNMIK has cooperated with the United States by accepting USG Executive Order lists, but there is no existing law or executive decision by the United Nations, Special Representative of the Secretary General for Kosovo to facilitate distribution of these lists to the CBAK, banks and financial institutions. Although Kosovo under UNMIK does not automatically become a party to the UN International Convention against Illicit Traffic in Narcotics Drugs and Psychotropic Substances (Vienna Convention), the UN Convention Against Transnational Organized Crime (Palermo Convention), the UN Convention Against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism, UNMIK is adhering to these conventions as much as possible in accordance to its mandate under UN Security

Council Resolution 1244.

¶20. The FIC only has agreements with Albania, Macedonia and Montenegro to share information. Kosovo under UNMIK is working to incorporate Egmont, FATF and EC policy directives in its anti-money laundering and counter-terrorist financing operations.

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